

# Case study-cooper tire and rubber company

Business



In 1914, specializes In the manufacturing and marketing of rubber products for consumers. Products Include automobile, truck and motorcycle tires, Inner tubes, NV control systems, automotive sealing, and fluid delivery systems. " (towpath. Cooperator. Com/about/).

The case study on Cooper mainly concentrates on the tire industry, and Therefore the following analysis will be based on this. Cooper Tire & Rubber co. As enjoyed much growth and strong returns. However, with intense competition and developments in new technology, Cooper must follow tie to maintain competitive advantage by balancing efficiency with cost specifically in the Replacement Tire Industry. To set the right strategies it is important for Cooper to first analyses the external environment, both on a macro and micro basis, and then assess the resources and capabilities/competences In order to get a detailed overview of the company.

The External Environment The Macro environment; PEST framework

Political/Legal Analysis The introduction of NONFAT and GAIT has created new opportunities for tire manufacturers for the supply of cheap labor.

Companies can reduce their costs by reducing their tires In low-cost labor countries such as Mexico. The foreign trade sub zone status, which reduces the company's duty payments on imported raw materials, benefit smaller companies like Cooper greatly as it allows them to compete on an international level with relatively smaller budgets.

The tire market is a heavily unionized industry, by OUR the industry union. Over the last years the union has won, after long strikes, increased wages and benefits for workers. Economical The Industry as a whole Is Influenced

by the economic demand for vehicles, this is hairdresser by the strength of the economy and the disposable incomes of the consumers.

In the early YK'S recession, a major effect on the Ministry. In the clean In the car industry meant that the competition for replacement tires increased, whilst the original equipment demand fell.

This resulted in many companies diversifying into the replacement market in a bid to compete. The gasoline prices have an effect on the tire industry, due to the number of miles driven by drivers. After many years with fluctuating gasoline price, the price is now reasonable and stable. Social In the tire industry, the standard of living has a direct effect on the demand for tires.

An example of this is found in the suburbanization of the US community, which resulted in more wear and tear on tires, thus a need to change tires.

In addition to this the transport industry, buses, taxis, and trucks were proving more popular than the rail system, thus increasing the demand for tires. Vehicle owners are often reluctant to spend money on replacement tires, as they do not want to spend money on an old car with the ambition to purchase a new vehicle in the short term. This social attitude has led to low-cost tire producers being more attractive in the replacement tire market.

Technology Customers in the OWE market often set special requirements for tires.

Due to improved technology, the companies can easier produce products tailored to customers' needs. The introduction of new technology has also led to companies being able to produce new, better quality products at low

costs. This has led to the importance in having the latest technological equipment in order to compete in the market. The Micromanagement; Porter's Five Forces Model Threat of Entry by Potential Competitors New entrants in this industry may be deterred to enter the industry, due to the high fixed cost investments needed in plants and equipment.

The incumbent companies have also achieved economies of scale through mass production and production know-how as they have moved down the "learning-curve".

The brand loyalty is quite moderate, but consumers do not face any cost in the eventuality they decide to switch from an incumbent manufacturer to a new entrant. When considering all these factors as barriers to entry, the barriers to entry for new competitors would be De moorage/Nell. Rivalry among established companies The OWE market is highly consolidated with Goodyear, Michelin and Bridgetown dominating the slightly growing market.

The competition is fierce, and the players in the market compete mainly on price and product technology differentiation.

The replacement market is more fragmented, and cost reduction is used as the key competitive strategy. In both markets, competitive structure results in more rivalry as tire manufacturing companies have to fight to maintain revenues and market shares. The exit barriers present in the industry lock incumbent companies from leaving the industry when profits are low.

Main barriers are the investment in plants and equipments, pensions and insurance for workers. The competitive structure and the high exit barriers

show clearly that the rivalry among established companies is fairly high.

**Power Of Buyers** In the OWE market, the buyers are the automobile and truck manufacturers that buy tires in large quantity and are relatively few compared to the tire companies.

They have the possibility to switch orders from one supplier to another in order to get the most convenient deal (quality products at low prices).

As for tire manufacturers goosing one single buyer would mean loosing a large market share, and therefore the power of buyers is high. In the tire replacement market, the buyers consist of independent tire dealers, service stations, major department stores and automobile dealerships. Independent dealers are the most powerful retail channels as they satisfy almost 66 percent of the replacement market and have been proved to have the ability to influence customers' choice, they will have the power to agree convenient deals with tire manufacturers.

However, the power of retail channels is fairly low, as they buy in relatively small annuity secondly and the tire firms can easily switch to other solutions such as manufactured-owned retail stores or simply other dealers. **Power of Suppliers** The power of suppliers of raw material is low.

The main reason is that " all of the raw materials are commodities, available in bulk from a variety of sources on world markets. " Therefore, tire manufacturers can easily switch from one source to another.

Furthermore, tire firms can eventually vertically (backward) integrate the processes to totals ten raw materials teeny need . On ten toner nana, It

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would be less keen for suppliers to threaten tire manufacturers forward integrating into tire manufacturing as they would have to face the high barriers to entry the industry. Complements The demand and profitability of the tire industry depends critically on the oil and auto/truck manufacturing industry. Lower gasoline prices increase the number of miles driven by vehicles, which lead to more wear and tear on tires and an increasing demand for replacement tires.

If the number of new cars sold declines, it means that drivers are holding on to their cars longer, and the demand for replacement tires increases. The demand for OWE tires is directly related to the number of new vehicles produced and sold. The number of new vehicles produced worldwide has been stable the last years. Substitutes The retread tire market segment is a substitute of the replacement tire manufacturing industry, because it serves a similar consumer need. However, the retread market is not a threat to the tire industry anymore.

In 1996 the sales of retread tires started declining, due to the fact that buyers could purchase new, more reliable tires for a slightly increase in the price. Cooper's resources, competences and competitive/business strategy As Hill & Hones argue, " a distinctive competency is unique strength that allows a company to achieve superior efficiency, quality, innovation or customer responsiveness and thereby to create superior value and attain a competitive advantage". Cooper with its distinctive competencies is achieving substantial low costs compared to that of its rivals through its key resources and capabilities.

Key resources and competences Intangible Resources and Competences A key intangible resource has been identified through Coopers distribution. This involves Coopers relationship with its wholesalers as it sells half of its production as private label to store-chains, mass merchants and discounters, while the other half is sold under the Cooper brand through independent tire dealers.

Cooper has achieved superior customer responsiveness by developing a good relationship with their distributors through valuing them instead of competing against them. Popper's Inventory system Is a Key resource Tanat NAS Nellie a team In cut costs even further, when using the capability of buying ahead to get cheaper deals. Cooper has the competence of bringing their products quickly to the market by outstanding service to the distribution channel with an efficient automated material middling system. Cooper knows that it is pointless to compete against the largest players in the market like Michelin and Bridgetown when it comes to R. Instead they copy and imitate the largest companies. " Instead of pioneering its own design, the company often waits to see what sells well".

In addition, Cooper use their efficient technological manufacturing equipment so they can produce products at higher standards tailored to meet customers requirements. Cooper also concentrates on implementing new ideas, and innovation is developed through the manufacturing of new production lines. This no frills approach of manufacturing its products, aided by product innovation leads to reduced costs. Cooper has a low marketing expenditure, compared to their competitors. They focus their marketing and

promotional strategy towards their most important customers, which are dealers and distributors.

The TTS (Total Quality Management) Concept Igor, chief executive of Cooper supports the TTS concept, and argues that the company's corporate philosophy is to "produce value and quality, as defined by the customer". Top quality management is an intangible resource, which gives them the ability to produce products that are superior to their competitors. It also creates efficient production methods while delivering excellent service to its distribution channel. This is represented in their strategic "Cooper 21" plan.

Cross-functional teams have also been developed within the organization, where employee skills and know how can be easily switched from department to department. The decision making although undertaken by management were made in consultation with all members of the company, as employees implement ideas in the most effective way.

Cooper is therefore capable of developing and producing tires at a lower cost relative to those of its competitors. In addition Coopers innovative compensation system where by wages rise or fall due to the individual's performance further contributes to motivation and overall productivity.

An effective measure of efficiency is employee productivity, and Cooper is much more efficient than their competitors (see Appendix 1). Coopers, recruitment process in aid with its screening test is also designed to "team players", which is designed to identify people with the "right attitude" to fit the job. This improved quality maintained by Cooper means that costs



decrease because of less rework, fewer mistakes, fewer delays, and better use of time and materials.

Consequently productivity improves as “ better quality leads to higher market share” (Hill and Jones, Strategic Management, 2001). **Key Resources** Cooper’s plants located in small towns and Mexico are one of its key tangible resources. Its plants have provided the company with cheaper resources including plants and labor. When Cooper want to expand its capacity, buying old plants and refurbishing them are very cheap. This tangible resource has helped cooper to create period efficiency of resources as it permit to reap savings over the company. Cooper’s own designed equipment is a valuable tangible resource for the company.

Its own production equipment meet better the company’s own needs and specifications than commercial equipment.

Cooper’s custom machines have helped to create superior efficiency and productivity in the production process by increasing production capacity at a reduced time. Its computer technology has not only enabled Cooper to keep up with its competitors but also reduced its costs. **Contribution of Key Resources and Competences to the Value Chain** To gain competitive advantage on its competitors, Cooper Tire focuses its strategy on what are its key resources and capabilities. It is really about maximizing and concentrating all the key strengths of the different organization’s primary and support activities, as represented in the value chain diagram.

One of the strongest advantage for Cooper Tire is its ability to produce good quality tires at low cost, and this is the result of a winning combination of key <https://assignbuster.com/case-study-cooper-tire-and-rubber-company/>

resources such as technological machinery and key capabilities such as low-cost production know how and an efficient product distribution. In terms of value chain Cooper Tire creates its value with an efficient and consistent production, marketing and sales activities and at the same time with a well-organized company infrastructure.

For these reasons Cooper Tire pursues a cost-leadership competitive/business strategy that will enable the company to maximize profit and expand. As Hill & Jones stated: " A strategy is an action a company takes to attain one or more of its goals/ (superior performance). " Therefore, once established that Cooper's goals are to produce good quality products at the lowest costs possible, maximize profit and expand the company, therefore the strategy will consist of the actions taken to achieve these goals.

One of the main resources that contributes to Cooper's low-cost strategy is the company's cheap plants and labor.

In particular, as Cooper operates mainly in the replacement tire market where it is not vital to pioneer in product innovation and design, its competitive/business strategy is mainly based on a low level of product differentiation. Very little is invested in product R and tires designs and characteristics are adapted in relations to other companies' already successful products. On the other hand much more attention is allocated to implement ten Electives competency of effective manufacturing and materials management.

More in details, the effective manufacturing and materials management consist in adopting high computer technology for “ product design and development, machine design and mold design”.

Technology enables Cooper to produce high quality products quicker than most of its competitors and therefore adds much value to its products.

Cooper are characterized by its shared norms and values attained from employee laity and innovation (TTS) with employee recruitment tests for “ team players and communicators” undertaken by Cooper.